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May 13, 2008

AGENDA ITEM 3f

**TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION
COMMITTEE**

I. SUBJECT: SB 1611 (Negrete McLeod)—As Amended March 27,
2008

California State University Academic Employees

Sponsor: California Faculty Association

II. PROGRAM: Legislation

III. RECOMMENDATION: Neutral

This bill could change the payroll reporting requirement for California State University (CSU) academic employees who are granted a reduced pay leave.

IV. ANALYSIS:

This bill would allow California State University (CSU) academic employees granted a reduced pay leave, such as a sabbatical or difference-in-pay leave, on or after January 1, 2009 to receive full service credit during the leave through a payroll reporting process instead of through a service credit purchase option after return to full employment at the end of the leave. The employee and employer would be required to contribute to the retirement fund the amount that would have been contributed if the member was not on a reduced pay leave. This change would not go into effect unless the CSU agrees to it through collective bargaining.

Background

Under current provisions of the Public Employees' Retirement Law (PERL), a CSU academic employee may elect to purchase service credit for a partially compensated, reduced pay leave, such as a sabbatical or difference-in-pay leave. During the leave the employee receives partial service credit based on his or her full-time payrate and reduced earnings as reported by the employer. To be eligible to purchase the remaining service credit, the employee must return to CalPERS-

covered employment after the leave of absence and be an active or inactive CalPERS member at the time he or she elects to purchase service credit. The cost to purchase this service credit is calculated using the present value method, which requires the employee to pay for the full increase in liability of the service credit purchase.

There are two types of reduced pay leaves available to active CSU academic employees - sabbatical leave and difference in pay leave. A sabbatical leave or difference-in-pay leave must be granted for the purpose of providing a benefit to the CSU, such as research, scholarly and creative activity, instructional improvement, or faculty retraining.

Sabbatical Leaves

A full-time faculty employee shall be eligible for a sabbatical leave if he or she has served full-time for six years at that campus in the preceding seven year period prior to the leave, and at least six years after any previous sabbatical leave or difference-in-pay leave. A faculty employee on sabbatical leave shall be considered in work status and shall receive health, dental and appropriate fringe benefits provided by the CSU in the same manner as if he or she were not on sabbatical leave. The salary of faculty employee on sabbatical leave shall be in accordance with the following:

- a. one semester at full salary;
- b. two semesters at one-half of full salary;
- c. one quarter at full salary;
- d. two quarters at three-fourths of full salary; or
- e. three quarters at one-half of full salary.

Difference in Pay Leaves

A full-time faculty employee shall be eligible for a difference-in-pay leave if he or she has served full-time for six years at that campus in the preceding seven year period prior to the leave and at least three years after any previous sabbatical leave or difference in pay leave. A faculty employee on a difference-in-pay leave shall be considered in work status and shall receive health, dental and appropriate fringe benefits provided by the CSU in the same manner as if he or she were not on a difference in pay leave. The salary for a difference-in-pay leave shall be the difference between the faculty employee's salary and the minimum salary of the instructor rank.

Reduced Workload Program – CSU Faculty

Existing provisions in the PERL also provide that CSU faculty employees who have reached the age of 55 and have been employed in the CSU for at least 10 years on a full-time basis are eligible for a Reduced Workload Program. This program allows a CSU faculty employee to work a reduced time base. However, CSU would report

to CalPERS the payrate and earnings the employee would receive if he or she worked full-time. The employee and employer would be responsible for making contributions to the retirement fund based on the full-time earnings reported, and the employee would receive service credit based on the full-time earnings reported.

Proposed Changes

This bill would allow CSU academic employees granted a reduced pay leave on or after January 1, 2009 to elect to receive full service credit during the reduced pay leave. The employer would be required to report the pay rate and earnings the employee would receive if not on a reduced pay leave. The employee and employer would contribute to the retirement fund the amount that would have been contributed if the member was not on a reduced pay leave. This change would not go into effect unless the CSU agrees to it through collective bargaining.

Legislative History

- 2007 SB 259 (Negrete McLeod) – Would have allowed California State University (CSU) academic employees granted a reduced pay leave, such as a sabbatical or difference-in-pay leave, on or after January 1, 2008 to receive full service credit during the leave through a payroll reporting process instead receiving credit after return from a leave through a service credit purchase option. The employee and employer would have been required to contribute to the retirement fund the amount that would have been contributed if the member was not on a reduced pay leave. In his Veto Message, the Governor recognized the value of sabbatical leave, but indicated his preference to negotiate this benefit through collective bargaining.
- 2006 AB 2355 (Negrete McLeod) —The provisions of this bill were similar to SB 259 and was also vetoed by the Governor. *CalPERS' position: Neutral.*
- 2000 Chapter 489 (AB 2840, Committee on Public Employees, Retirement and Social Security) – Provided for uniformity in calculation of the cost of various forms for service retirement that can be purchased by CalPERS members in order to increase retirement service credit to enhance their retirement allowance. Specifically, this legislation provided a costing method for partially compensated leaves which requires the member to offset any employer liability for benefits from the credit election. *CalPERS' position: Sponsor.*
- 1989 Chapter 891 (SB 1633, C. Green) – Amended sections of the Government Code which prescribe costs for those members who elect to redeposit withdrawn contributions or contribute for public service credit or leaves of absence. *CalPERS' position: Support.*
- 1981 Chapter 1023 (AB 1162, Moore) – Extended the existing retirement law provisions relating to part-time employment of certain employees of the

California State University and College System and certificated employees of school districts. *CalPERS' position: Neutral*

- 1969 Chapter 1226 (AB 257, Barnes) – Revised provisions of the law for service credit in addition to that received for prior service and service for various types of absences from covered employment and for employment with employers not participating in the System. Made contribution and interest requirements for the crediting of the service uniform and deleted inoperative additional service credit provisions and preserved credit granted for service under those provisions. *CalPERS' Position: Sponsor.*
- 1968 Chapter 467 (SB 599, Deukmejian) – Permitted crediting of full-time service for absences where partial compensation is received and part-time service credit was previously received. The Board opposed this legislation because the bill increased the benefit costs for the State and other employers under the System. *CalPERS' Position: Oppose.*

Issues

1. Arguments by Those in Support

According to the sponsor, “sabbaticals are granted at the discretion of campus administrators to encourage faculty to conduct research and scholarship activities that help to improve and enrich campus academic programs and student learning. Under current law, CalPERS members who are excused from performance of his or her duties – and who receive a reduced salary – also receive a reduction in service credit. However, CSU faculty members on administration-approved sabbatical leaves are never relieved of their duties, even when received a reduced salary for their work. CSU faculty members on reduced pay sabbatical leave are still considered full-time employees and are expected to work full-time during their sabbaticals. In fact, these employees continue to receive their health care and other employee benefits they would normally receive, and continue to accrue sick leave, vacation time and seniority at the same levels they would normally receive as full-time employees.”

Organizations in Support: California Faculty Association (sponsor); California Teachers Association; American Federation of State, County and Municipal Employees.

2. Arguments by Those in Opposition

There is no known opposition at this time.

3. Reporting Requirement Consistent With the Reduced Workload Program

This bill would change the reporting requirements for CSU academic employees who are granted reduced pay leaves on or after January 1, 2009. These

reporting requirements would be consistent with the reduced workload program already administered by CSU for its faculty. When a CSU academic employee is on a reduced pay leave, CSU would report payrate and earnings to CalPERS as if the employee was not on a reduced pay leave. The employee and employer would be responsible for making contributions to the retirement fund based on the earnings reported, and the employee would receive service credit based on the payrate and earnings reported.

4. Legislative Policy Standards

The Board's Legislative Policy Standards suggest a neutral or no position on proposals which do not significantly affect the benefit interests of our stakeholders, and which do not significantly impact CalPERS' benefits or the administration of the system. SB 1611 would change the payroll reporting requirements applied to CSU academic employees who are granted reduced pay leaves and who elect to pay for full credit while on leave through the payroll reporting process.

V. **STRATEGIC PLAN:**

This item is not a specific product of the Annual or Strategic Plans, but it is part of the regular and ongoing workload of the Office of Governmental Affairs.

VI. **RESULTS/COSTS:**

Changing reduced pay leaves from a service credit purchase option and requiring the CSU to report payrate and earnings as if the employee was not on a reduced pay leave should not have an impact on the total liabilities. However, some cost would be transferred from the employee to the employer.

Program Costs

There are approximately 36,000 CSU members participating in the State Miscellaneous First Tier plan. Based on CalPERS data, an estimated 2,770 CSU members took sabbaticals between December 3, 1974 and December 2005. Out of these 2,770 CSU members, there are 2,374 that have not yet retired. The following table contains age and salary information on those 2,374 members based on the participant data used in the June 30, 2006 actuarial valuation of the State Miscellaneous First Tier plan.

Age	Number of Members	Average Salary
Less than 30 years old	2	\$38,000
31 to 40 years old	15	\$71,000
41 to 50 years old	372	\$83,000
51 to 60 years old	1334	\$89,000
More than 60 years old	651	\$92,000

Although the proposed legislation is prospective only and there are no valid statistics on how many of the 2,374 members would have qualified if the proposed legislation had been in effect all those years, the data can be used to estimate the potential cost impact.

Using an average salary of \$89,000 from the 2,374 members listed in the table above and the 2007/08 State Miscellaneous First Tier Employer Rate of 16.663 percent, the following table provides estimates of the cost impact for a sabbatical leave if the employer agrees through collective bargaining to pay the full employer contribution for sabbatical and difference-in-pay leaves.

Estimated Cost Impact of a Sabbatical Leave

Length of Sabbatical Leave	Additional salary reported	Additional Employer Contributions	Additional Employee Contributions
1 semester at full salary	\$0	\$0	\$0
2 semesters at ½ salary	\$44,500	\$7,415	\$2,225
1 quarter at full salary	\$0	\$0	\$0
2 quarters at ¾ salary	\$22,300	\$3,715	\$1,115
3 quarters at ½ salary	\$44,500	\$7,415	\$2,225

Note that the costs in the above table are estimates only. The actual cost for each member will vary depending on the salary of the member and the type of leave.

Administrative Costs

This bill should reduce the number of reduced pay leave credit purchase elections made through CalPERS by CSU academic employees resulting in a corresponding reduction in administrative costs.

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